

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jim Ward, Letcher County Judge/Executive

Honorable Carroll Smith, Former Letcher County Judge/Executive

Members of the Letcher County Fiscal Court

The enclosed report prepared by Teddy Michael Prater CPA, PLLC, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Teddy Michael Prater CPA, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Teddy Michael Prater CPA, PLLC evaluated the Letcher County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Teddy Michael Prater CPA, PLLC has completed the audit of the Letcher County Fiscal Court for the fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky. In accordance with OMB A-133 we have issued an unqualified opinion on compliance for the federal programs.

Financial Condition:

The fiscal court had total net assets of \$8,899,363 as of June 30, 2007. The fiscal court had unrestricted net assets of \$3,381,405 in its governmental activities as of June 30, 2007, with total net assets of \$8,781,008. In its business-type activities, total cash and cash equivalents were \$118,355 with total net assets of \$118,355.

Debt Obligations:

The fiscal court had total debt principal as of June 30, 2007 of \$3,777,000 with \$112,000 due within the next year.

Deposits:

On March 6, 2007, \$167,804 of the Fiscal Court's deposits were uninsured and under collateralized by bank securities.

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Jim Ward, Letcher County Judge/Executive

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Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
Honorable Carroll Smith, Former Letcher County Judge/Executive
Members of the Letcher County Fiscal Court
(Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Letcher County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2008 on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Teddy Michael Prater CPA, PLLC

September 8, 2008

LETCHER COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Jim Ward	County Judge/Executive
Bob Lewis	Magistrate
Archie Banks	Magistrate
Codell Gibson	Magistrate
Keith Adams	Magistrate
Wayne Fleming	Magistrate

Other Elected Officials:

Harold Bolling	County Attorney
Don McCall	Jailer
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Danny Webb	Sheriff
Randy Hall	Property Valuation Administrator
John Cornett	Coroner

Appointed Personnel:

Eddie Meade	Deputy Judge/Pro Tem
Phillip Hampton	County Treasurer
D. J. Frazier	Finance Officer
Teresa Banks	Payroll Clerk
Brandon Conley	911 Administrator
John Adams	Road Foreman
Johnny Ray Williams	Solid Waste Coordinator

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LETCHER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

LETCHER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,381,405	\$ 118,355	\$ 3,499,760
Total Current Assets	3,381,405	118,355	3,499,760
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	1,563,500		1,563,500
Buildings	5,700,894		5,700,894
Equipment	41,967		41,967
Vehicles and Road Equipment	740,146		740,146
Infrastructure	1,130,096		1,130,096
Total Noncurrent Assets	9,176,603		9,176,603
Total Assets	12,558,008	118,355	12,676,363
LIABILITIES			
Current Liabilities:			
Bonds Payable	112,000		112,000
Total Current Liabilities	112,000		112,000
Noncurrent Liabilities:			
Bonds Payable	3,665,000		3,665,000
Total Noncurrent Liabilities	3,665,000		3,665,000
Total Liabilities	3,777,000		3,777,000
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	5,399,603		5,399,603
Unrestricted	3,381,405	118,355	3,499,760
Total Net Assets	\$ 8,781,008	\$ 118,355	\$ 8,899,363

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

LETCHER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 2,714,633	\$	\$ 439,327	\$
Protection to Persons and Property	1,068,519	43,136	649,609	
General Health and Sanitation	1,811,461	947,058	997,527	1,587,621
Social Services	569,635		312,492	
Recreation and Culture	127,616		648,300	
Roads	1,290,950		1,993,576	
Interest On Long-term Debt	184,490			
Capital Projects	1,465,491			
Total Governmental Activities	9,232,795	990,194	5,040,831	1,587,621
Business-type Activities:				
Jail Canteen	151,554	173,255		
Total Business-type Activities	151,554	173,255		
Total Primary Government	\$ 9,384,349	\$ 1,163,449	\$ 5,040,831	\$ 1,587,621

General Revenues:

Taxes:

Real Property Taxes

Motor Property Taxes

Other Taxes

Motel Tax

In Lieu of Taxes

Excess Fees

Licenses and Permits

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Reporting Entity		
Governmental Activities	Business-Type Activities	Totals
\$ (2,275,306)	\$	\$ (2,275,306)
(375,774)		(375,774)
1,720,745		1,720,745
(257,143)		(257,143)
520,684		520,684
702,626		702,626
(184,490)		(184,490)
(1,465,491)		(1,465,491)
(1,614,149)		(1,614,149)
	21,701	21,701
	21,701	21,701
(1,614,149)	21,701	(1,592,448)
712,932		712,932
201,939		201,939
519,065		519,065
23,981		23,981
2,164		2,164
22,964		22,964
24,640		24,640
71,071		71,071
246,080		246,080
1,824,836		1,824,836
210,687	21,701	232,388
8,570,321	96,654	8,666,975
\$ 8,781,008	\$ 118,355	\$ 8,899,363

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

LETCHER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation 1999 Bond Fund
ASSETS				
Cash and Cash Equivalents	\$ 475,746	\$ 1,436,327	\$ 847,219	\$ 393,395
Total Assets	<u>\$ 475,746</u>	<u>\$ 1,436,327</u>	<u>\$ 847,219</u>	<u>\$ 393,395</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 2,656	\$ 14,635	\$ 30,514	\$
Debt Service				393,395
Unreserved:				
General Fund	473,090			
Special Revenue Funds		1,421,692	816,705	
Total Fund Balances	<u>\$ 475,746</u>	<u>\$ 1,436,327</u>	<u>\$ 847,219</u>	<u>\$ 393,395</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 228,718</u>	<u>\$ 3,381,405</u>
<u><u>\$ 228,718</u></u>	<u><u>\$ 3,381,405</u></u>

\$ 29,472	\$ 77,277
	393,395
	473,090
<u>199,246</u>	<u>2,437,643</u>
<u><u>\$ 228,718</u></u>	<u><u>\$ 3,381,405</u></u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 3,381,405
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	11,228,045
Accumulated Depreciation	(2,051,442)
Long-term Debt Is Not Due and Payable in the Current Period and,	
Therefore, Is Not Reported in the Funds.	
Bonds	<u>(3,777,000)</u>
Net Assets Of Governmental Activities	<u><u>\$ 8,781,008</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

LETCHER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation 1999 Bond Fund
REVENUES				
Taxes	\$ 1,430,248	\$	\$ 23,981	\$
In Lieu Tax Payments		2,164		
Excess Fees	22,964			
Licenses and Permits	24,640			
Intergovernmental	749,077	1,159,777	3,647,572	128,000
Charges for Services	947,058			
Miscellaneous	201,882	862	12,262	
Interest	7,986	20,244	33,643	7,173
Total Revenues	<u>3,383,855</u>	<u>1,183,047</u>	<u>3,717,458</u>	<u>135,173</u>
EXPENDITURES				
General Government	892,732	25,721	174,460	
Protection to Persons and Property	303,750		60,779	
General Health and Sanitation	315,890		956,240	
Social Services	36,446		15,792	
Recreation and Culture			231,423	
Roads		1,191,976	833,799	
Debt Service				291,490
Capital Projects	529,932		935,559	
Administration	896,660	250,562	90,449	
Total Expenditures	<u>2,975,410</u>	<u>1,468,259</u>	<u>3,298,501</u>	<u>291,490</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>408,445</u>	<u>(285,212)</u>	<u>418,957</u>	<u>(156,317)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	530,000	530,000		193,566
Transfers To Other Funds	(723,566)	(530,000)	(1,105,000)	
Total Other Financing Sources (Uses)	<u>(193,566)</u>	<u></u>	<u>(1,105,000)</u>	<u>193,566</u>
Net Change in Fund Balances	214,879	(285,212)	(686,043)	37,249
Fund Balances - Beginning	260,867	1,721,539	1,533,262	356,146
Fund Balances - Ending	<u>\$ 475,746</u>	<u>\$ 1,436,327</u>	<u>\$ 847,219</u>	<u>\$ 393,395</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 3,688	\$ 1,457,917
	2,164
	22,964
	24,640
944,026	6,628,452
43,136	990,194
31,074	246,080
2,025	71,071
<u>1,023,949</u>	<u>9,443,482</u>
	1,092,913
686,773	1,051,302
532,825	1,804,955
497,553	549,791
	231,423
	2,025,775
	291,490
	1,465,491
302,429	1,540,100
<u>2,019,580</u>	<u>10,053,240</u>
<u>(995,631)</u>	<u>(609,758)</u>
1,105,000	2,358,566
	<u>(2,358,566)</u>
<u>1,105,000</u>	
109,369	(609,758)
119,349	3,991,163
<u>\$ 228,718</u>	<u>\$ 3,381,405</u>

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

LETCHER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (609,758)
Amounts for governmental activities in the Statement of Activities are different because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Are Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	1,022,983
Depreciation Expense	(309,538)
Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have No Effect on Net Assets.	
Bond Payments	<u>107,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 210,687</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

LETCHER COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 118,355
Total Current Assets	<u>118,355</u>
 Total Assets	 <u>118,355</u>
 Net Assets	
Unrestricted	<u>118,355</u>
Total Net Assets	<u><u>\$ 118,355</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

LETCHER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 113,431
Total Operating Revenues	<u>113,431</u>
Operating Expenses	
Cost of Goods Sold	91,560
Educational And Recreational	2,742
Sales Tax	7,194
Miscellaneous	9,382
Total Operating Expenses	<u>110,878</u>
Operating Income	<u>2,553</u>
Nonoperating Revenue (Expense)	
Inmate Deposits	55,330
Inmate Refunds	(36,182)
Bail Bonds	4,494
Bail Bond Payments	(4,494)
Total Nonoperating Revenues (Expenses)	<u>19,148</u>
Change In Net Assets	21,701
Total Net Assets - Beginning	<u>96,654</u>
Total Net Assets - Ending	<u><u>\$ 118,355</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

LETCHER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Canteen Receipts	\$ 113,431
Payments to Suppliers	(91,560)
Educational and Recreational	(2,742)
Sales Taxes	(7,194)
Miscellaneous	(9,382)
Net Cash Provided (Used) By Operating Activities	<u>2,553</u>
Cash Flows From Noncapital Financing Activities	
Inmate Deposits	55,330
Bail Bonds	4,494
Inmate Refunds	(36,182)
Bail Bonds Payments	(4,494)
Net Cash Provided By Noncapital Financing Activities	<u>19,148</u>
Net Increase (Decrease) in Cash and Cash Equivalents	21,701
Cash and Cash Equivalents - July 1, 2006	<u>96,654</u>
Cash and Cash Equivalents - June 30, 2007	<u><u>\$ 118,355</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	Jail Canteen Fund
Operating Income	<u><u>\$ 2,553</u></u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 2,553</u></u>

The accompanying notes are an integral part of the financial statements.

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TO FINANCIAL STATEMENTS**

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LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivables are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on the Balance Sheet-Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet-Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or whose exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Letcher County Public Properties Corporation

The Letcher County Public Properties Corporation is a legally separate entity established for the purpose of renovating the County's courthouse and detention center through issuance of long-term debt in the corporation's name. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Letcher County Public Properties Corporation. Financial information for the Letcher County Public Properties Corporation is blended within Letcher County's financial statements. The financial information can be found in the Public Properties Corporation 1999 Bond Fund.

C. Letcher County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Letcher County, Kentucky.

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and other unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Department for Local Government requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation 1999 Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Department for Local Government does not require the Fiscal Court to report or budget these funds.

The primary government also has the following nonmajor funds: Jail Fund, Senior Citizens Fund, Abandoned Mines Land Fund, and Forestry Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Senior Citizens Fund, Abandoned Mines Land Fund, and Forestry Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties Corporation 1999 Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Jail Canteen Fund. The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve expenditures made from this fund.

A formal budget is not adopted for the Public Properties Corporation 1999 Bond Fund. The Department for Local Government does not require the fiscal court to report or budget this fund.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The county does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of March 6, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the primary government's deposits in accordance with the security agreement as follows:

- Unsecured and uncollateralized - \$167,804

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,548,500	\$ 15,000	\$	\$ 1,563,500
Total Capital Assets Not Being Depreciated	1,548,500	15,000		1,563,500
Capital Assets, Being Depreciated:				
Buildings	7,214,300	103,616		7,317,916
Equipment		44,893		44,893
Vehicles and Road Equipment	740,325	357,013		1,097,338
Infrastructure	701,937	502,461		1,204,398
Total Capital Assets Being Depreciated	8,656,562	1,007,983		9,664,545
Less Accumulated Depreciation For:				
Buildings	(1,450,478)	(166,544)		(1,617,022)
Equipment		(2,926)		(2,926)
Vehicles and Equipment	(255,665)	(101,527)		(357,192)
Infrastructure	(35,761)	(38,541)		(74,302)
Total Accumulated Depreciation	(1,741,904)	(309,538)		(2,051,442)
Total Capital Assets, Being Depreciated, Net	6,914,658	698,445		7,613,103
Governmental Activities Capital Assets, Net	\$ 8,463,158	\$ 713,445	\$	\$ 9,176,603

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 126,236
Protection to Persons and Property	17,217
General Health and Sanitation	14,006
Social Services	19,844
Recreation and Culture	15,086
Roads	117,149
Total Depreciation Expense - Governmental Activities	<u>\$ 309,538</u>

Note 4. Long-term Debt

A. Revenue Bonds, Series 1997

On January 18, 1999, the Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Letcher County Public Properties Corporation and the Administrative Office of the Courts (AOC) entered into a lease agreement for the purpose of obtaining office rental space for the AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agents bank their prorated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirement for the bonds.

The use allowance payment commences with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate AOC to do so.

As of June 30, 2007, the principal balance remaining was \$3,777,000. Future bond payments are as follows:

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Long-term Debt (Continued)

A. Revenue Bonds, Series 1997 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 112,000	\$ 179,408
2009	119,000	174,088
2010	125,000	168,435
2011	131,000	162,498
2012	137,000	156,277
2013-2017	802,000	676,400
2018-2022	1,029,000	465,499
2023-2027	1,322,000	194,512
Totals	<u>\$ 3,777,000</u>	<u>\$ 2,177,117</u>

B. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 3,884,000	\$	\$ 107,000	\$ 3,777,000	\$ 112,000
Governmental Activities					
Long-term Liabilities	<u>\$ 3,884,000</u>	<u>\$</u>	<u>\$ 107,000</u>	<u>\$ 3,777,000</u>	<u>\$ 112,000</u>

Note 5. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 6. Insurance

For the fiscal year ended June 30, 2007, Letcher County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 7. Prior Period Adjustments

Prior Period Net Asset Adjustments-Primary Government

The Beginning Net Assets Balance was adjusted by a net decrease of \$204,000 due to the Health Department land and building included as county owned in the prior year audit. These assets are owned by the Letcher County Health Department District. The adjustments are as follows:

Prior Year Net Assets Ending Balance-Governmental Funds	\$8,774,321
Less: Land	(50,000)
Building (net of Accumulated Depreciation)	<u>(154,000)</u>
Adjusted Net Assets Balance-July 1, 2006	<u>\$8,570,321</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,262,000	\$ 1,262,000	\$ 1,430,248	\$ 168,248
Excess Fees	7,686	7,686	22,964	15,278
Licenses and Permits	200	200	24,640	24,440
Intergovernmental Revenue	175,166	699,005	749,077	50,072
Charges for Services	975,000	975,000	947,058	(27,942)
Miscellaneous	171,400	171,400	201,882	30,482
Interest	7,600	7,600	7,986	386
Total Revenues	<u>2,599,052</u>	<u>3,122,891</u>	<u>3,383,855</u>	<u>260,964</u>
EXPENDITURES				
General Government	718,318	953,652	892,732	60,920
Protection to Persons and Property	261,774	326,474	303,750	22,724
General Health and Sanitation	503,374	348,313	315,890	32,423
Social Services	40,000	57,247	36,446	20,801
Debt Service	329,000	212,000	193,566	18,434
Capital Projects	25,000	530,839	529,932	907
Administration	845,892	1,079,539	896,660	182,879
Total Expenditures	<u>2,723,358</u>	<u>3,508,064</u>	<u>3,168,976</u>	<u>339,088</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(124,306)</u>	<u>(385,173)</u>	<u>214,879</u>	<u>600,052</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	124,306	124,306	530,000	405,694
Transfers To Other Funds			<u>(530,000)</u>	<u>(530,000)</u>
Total Other Financing Sources (Uses)	<u>124,306</u>	<u>124,306</u>		<u>(124,306)</u>
Net Changes in Fund Balances		(260,867)	214,879	475,746
Fund Balances - Beginning		<u>260,867</u>	<u>260,867</u>	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 475,746</u>	<u>\$ 475,746</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
In Lieu of Taxes	\$ 819	\$ 819	\$ 2,164	\$ 1,345
Intergovernmental Revenue	1,129,696	1,129,696	1,159,777	30,081
Miscellaneous	2,055	2,055	862	(1,193)
Interest	20,000	20,000	20,244	244
Total Revenues	<u>1,152,570</u>	<u>1,152,570</u>	<u>1,183,047</u>	<u>30,477</u>
EXPENDITURES				
General Government	27,000	27,350	25,721	1,629
Roads	780,064	1,504,064	1,191,976	312,088
Administration	221,200	1,218,389	250,562	967,827
Total Expenditures	<u>1,028,264</u>	<u>2,749,803</u>	<u>1,468,259</u>	<u>1,281,544</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>124,306</u>	<u>(1,597,233)</u>	<u>(285,212)</u>	<u>1,312,021</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			530,000	530,000
Transfers To Other Funds	(124,306)	(124,306)	(530,000)	(405,694)
Total Other Financing Sources (Uses)	<u>(124,306)</u>	<u>(124,306)</u>	<u></u>	<u>124,306</u>
Net Changes in Fund Balances		(1,721,539)	(285,212)	1,436,327
Fund Balances - Beginning		<u>1,721,539</u>	<u>1,721,539</u>	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 1,436,327</u>	<u>\$ 1,436,327</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	Local Governmental Economic Assistance Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 32,000	\$ 32,000	\$ 23,981	\$ (8,019)
Intergovernmental	3,086,700	3,828,291	3,647,572	(180,719)
Miscellaneous	1,800	6,800	12,262	5,462
Interest	12,000	12,000	33,643	21,643
Total Revenues	<u>3,132,500</u>	<u>3,879,091</u>	<u>3,717,458</u>	<u>(161,633)</u>
EXPENDITURES				
General Government	90,150	208,150	174,460	33,690
Protection to Persons and Property	46,901	105,901	60,779	45,122
General Health and Sanitation	735,803	1,036,559	956,240	80,319
Social Services	16,500	18,200	15,792	2,408
Recreation and Culture	139,520	259,037	231,423	27,614
Roads	833,500	834,500	833,799	701
Capital Project	388,500	1,344,904	935,559	409,345
Administration	102,100	559,741	90,449	469,292
Total Expenditures	<u>2,352,974</u>	<u>4,366,992</u>	<u>3,298,501</u>	<u>1,068,491</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>779,526</u>	<u>(487,901)</u>	<u>418,957</u>	<u>906,858</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(779,526)</u>	<u>(779,526)</u>	<u>(1,105,000)</u>	<u>(325,474)</u>
Total Other Financing Sources (Uses)	<u>(779,526)</u>	<u>(779,526)</u>	<u>(1,105,000)</u>	<u>(325,474)</u>
Net Changes in Fund Balances		(1,267,427)	(686,043)	581,384
Fund Balances - Beginning		<u>1,208,262</u>	<u>1,533,262</u>	<u>325,000</u>
Fund Balances - Ending	<u>\$</u>	<u>\$ (59,165)</u>	<u>\$ 847,219</u>	<u>\$ 906,384</u>

LETCHER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Funds

General Fund

Total Expenditures - Budgetary Basis	\$ 3,168,976
Less: Transfers to Public Properties Corporation 1999 Bond Fund	<u>(193,566)</u>
Total Expenditures - Modified Cash Basis	<u>\$ 2,975,410</u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$
Less: Transfers to Public Properties Corporation 1999 Bond Fund	<u>193,566</u>
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ (193,566)</u>

LETCHER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2007

LETCHER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Jail Fund	Senior Citizens Fund	Forestry Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 121,259	\$ 104,346	\$ 3,113	\$ 228,718
Total Assets	<u>\$ 121,259</u>	<u>\$ 104,346</u>	<u>\$ 3,113</u>	<u>\$ 228,718</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 15,093	\$ 14,379	\$	\$ 29,472
Unreserved:				
Special Revenue Funds	<u>106,166</u>	<u>89,967</u>	<u>3,113</u>	<u>199,246</u>
Total Fund Balances	<u>\$ 121,259</u>	<u>\$ 104,346</u>	<u>\$ 3,113</u>	<u>\$ 228,718</u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

LETCHER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	<u>Jail Fund</u>	<u>Senior Citizens Fund</u>	<u>Forestry Fund</u>
REVENUES			
Taxes	\$	\$	\$ 3,688
Intergovernmental	316,730	146,039	
Charges for Services	43,136		
Miscellaneous	16,362	14,712	
Interest	1,146	879	
Total Revenues	<u>377,374</u>	<u>161,630</u>	<u>3,688</u>
EXPENDITURES			
Protection to Persons and Property	683,131		3,642
General Health and Sanitation		51,568	
Social Services		497,553	
Administration	187,447	114,982	
Total Expenditures	<u>870,578</u>	<u>664,103</u>	<u>3,642</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(493,204)</u>	<u>(502,473)</u>	<u>46</u>
Other Financing Sources (Uses)			
Transfer From Other Funds	565,000	540,000	
Total Other Financing Sources (Uses)	<u>565,000</u>	<u>540,000</u>	
Net Change in Fund Balances	71,796	37,527	46
Fund Balances - Beginning	49,463	66,819	3,067
Fund Balances - Ending	<u>\$ 121,259</u>	<u>\$ 104,346</u>	<u>\$ 3,113</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Abandoned Mines Land Fund	Total Non-Major Governmental Funds
\$	\$
481,257	3,688
	944,026
	43,136
	31,074
	2,025
<u>481,257</u>	<u>1,023,949</u>
	686,773
481,257	532,825
	497,553
	302,429
<u>481,257</u>	<u>2,019,580</u>
	(995,631)
	1,105,000
	<u>1,105,000</u>
	109,369
	119,349
<u>\$</u>	<u>\$ 228,718</u>

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LETCHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LETCHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2007

<u>Program Title</u>	<u>Pass-through Identification Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security		Cluster	
<i>Passed Through KY Office of Homeland Security</i>			
Emergency Management Performance Grant	PON2 095 070000	97.042	\$ 4,436
Disaster Grants - Public Assistance	FEMA-1454-DR	97.036	5,243
Total U.S. Department of Homeland Security			9,679
U.S. Department of Health and Human Services			
<i>Passed Through KY Cabinet for Health and Family Services</i>			
<i>Under Agreement With Kentucky Area Development District</i>			
Special Program for the Aging - Part D - Disease Prevention	M-06156602	93.043	1,341
Special Program for the Aging - Part B - Supportive Services	M-06156602	93.044	23,713
Special Program for the Aging - Part C - Nutrition Services	M-06156602	93.045	45,104
Nutrition Services Incentive Program	M-06156602	93.053	53,399
Total U.S. Department of Health and Human Services			123,557 *
U.S. Department of Interior			
<i>Passed Through KY Environmental Protection Cabinet</i>			
Abandoned Mine Land Reclamation Program			
Isom/Jeremiah Water Project	M-04136604	15.252	59,657
Sandlick Water Project	M-04181442	15.252	400,000
Pine, Pert, Elk, Bull and Cram Creek Water Project	PON2 595 600000	15.252	21,600
Total for CFDA No.			481,257 *
<i>Passed Through KY Environmental Protection Cabinet</i>			
Historic Preservation Fund Grant (Note B)	FY-06-05 HP 714	15.904	2,976
Total U.S. Department of Interior			484,233
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 617,469

* - Tested as Major Program or Cluster

LETCHER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Note A - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Letcher County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note B - The Letcher County Fiscal Court provided Federal awards to subrecipients as follows:

Letcher County Convention and Tourism Commission

	<u>CFDA #</u>	<u>Amount</u>
Historic Preservation Fund Grant	15.904	\$2,976

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

TEDDY MICHAEL PRATER CPA, PLLC

HC 62 Box 291

Salyersville, KY 41465

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Carroll Smith, Former Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated September 8, 2008. Letcher County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Letcher County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Letcher County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Letcher County's financial statements as of June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Department for Local Government and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Teddy Michael Prater CPA, PLLC

September 8, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TEDDY MICHAEL PRATER CPA, PLLC

HC 62 Box 291

Salyersville, KY 41465

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Carroll Smith, Former Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

Report On Compliance With Requirements Applicable To Each Major Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Letcher County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Letcher County's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Letcher County's management. Our responsibility is to express an opinion on Letcher County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Letcher County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Letcher County's compliance with those requirements.

In our opinion, Letcher County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Letcher County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Letcher County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Letcher County's internal control over compliance.

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Teddy Michael Prater CPA, PLLC

September 8, 2008

LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2007

**LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business - type activities, each major fund, and aggregate remaining fund information of Letcher County, Kentucky.
2. No significant deficiencies relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of Letcher County was disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Letcher County expresses an unqualified opinion.
6. There were no audit findings relative to the major federal awards programs for Letcher County reported in Part C of this schedule.
7. The programs tested as major programs were: Abandoned Mine Land Reclamation (CFDA 15.252) and Special Programs for Aging (cluster) (CFDA 93.043, 93.044, 93.045 and 93.053).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Letcher County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES/MATERIAL WEAKNESSES

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

None

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LETCHER COUNTY FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**

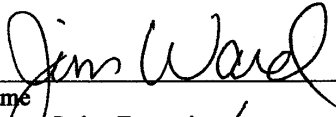
Appendix A

CERTIFICATION OF COMPLIANCE

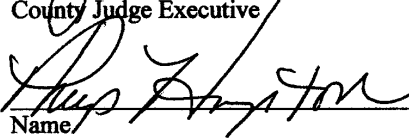
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
LETCHER COUNTY FISCAL COURT

For the Fiscal Year Ended June 30, 2007

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge Executive



Name
County Treasurer

